FLORIDA DEPARTMENT OF REVENUE

PROPOSED RULE DEVELOPMENT WORKSHOP

ESTABLISHMENT OF MARKET AREAS; MARKET AREA CODES

JANUARY 4, 2001

1:30 P.M. TO 5:00 P.M.

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P R O C E E D I N G S

(1:30 P.M.)

MR. HARRELL: My name is Hugh Harrell. I am Process Manager for Property Tax Administration, Florida Department of Revenue. I will be the workshop moderator this afternoon.

At this time I would like for the other members of the Department of Revenue to introduce themselves beginning with my left please.

MR.BEGGS: I am David Beggs with the Tax Research Office at the Department.

MR. KELLER: My name is Stephen Keller. I am one of the attorneys with the Department of Revenue.

MS. HENLEY:. My name is Kathy Henley. I am with the Property Tax Administration.

MR. HARRELL: Thank you. This is a workshop, noticed consistent with subsection 120.54(2), Florida Statutes, held for the purpose of presenting to interested parties the concepts and background materials for the development of the Department?s Market Area Guidelines and to receive public comments concerning potential items for inclusion in those Guidelines.

The format for this workshop is informal,

and the following procedure will be used for receiving your verbal comments today. You all have, should have, a packet of materials that says Concepts List and Background Material, Market Area Guidelines, Rule Development Workshop. All of you should have that, if not, then there are copies available. Steve Keller and his staff developed this packet and he will lead the discussion and introduce the materials that are in this packet.

When you do have a comment, please state your name and organization and/or who you represent so that we may record accurately who all was here and gave a comment.

Is there any question regarding the procedure that we are going to use here today?

Before we begin, is there anyone who wishes to submit written comments or suggestions at this time?

This workshop was noticed in the December 15, 2000, Florida Administrative Weekly.

At this point I will turn the discussion and Steve will be the moderator from this point forward.

MR. KELLER: I would just like to give a thumbnail sketch of where we are and how we got here

today. As many of you know, if you look on page 1 of the Concepts List, the Statute that requires Market Area Codes, established consistent with Department Guidelines which were passed effective January 1, 1996.

In response to some of the comments in the 1997 Auditor General?s report and particularly the 2000 Auditor General?s report, the Department is initiating this series of workshops to begin the process of developing those Market Area Guidelines. Previously, some Department staff had prepared some rough drafts of what the Guidelines might contain; however, those drafts were not finalized and the Department?s consultant has also recently made some further recommendations which are contained in the materials here on page 18, 19 and going on through page 21.

This is the first workshop conducted around the State, a public workshop to record public input on Market Area Guidelines. The Department has identified a schedule for the promulgation of these Guidelines which is contained in the materials here on page 24, going back to the end on page 27. Generally, that schedule provides for a series of workshops of which we are going to have three in the

Spring of the year 2001. Following that, there will be some public hearings in the Fall of 2001 and we anticipate submitting the Guidelines for adoption sometime in late November of 2001. They will be refined during the 2001 and 2002 tax bill studies.

The use of those Guidelines will not be applicable in those years; but it will be hopefully refined and improved to some degree, and then used for roll evaluation in the year 2003.

The Department?s Guidelines will be made available, as we have drafts, on the internet address, the Department?s website, and the address for that is:
http://sun6.dms.state.fl.us/dor/property/.

Comments on the Guidelines may be sent initially to the following e-mail address:
beggsd@dor.state.fl.us.

We will not be able to send confirmation of e-mail and all of the comments will become public records. Copies of those comments by e-mail will be made available on request.

If anyone would like to submit written comments, bearing in mind that they become public records, please do so by close of business on January 19, 2001. Your comments can be faxed to the

following numbers: 850-922-9252 or 850-921-2983.

The Department is exploring the potential for posting the e-mails that we receive to the website; however, that would be a function of the volume and the availability of staffing.

When a draft has been completed it will be posted on the website, as I indicated. However, Florida law requires the Guidelines to be adopted in conformity with the procedures set forth in Section 120.54, Florida Statutes. This section does not include online procedures such as immediate posting of drafts in response to e-mail or the immediate posting of public response to e-mails, posting and public response to e-mails, which could comprise a meeting or whatnot, which would require some form of notice, etc.

So, however, the Department does hope to post updated draft Market Area Guidelines together with each notice of workshop. At this point I will turn it back over to Mr. Harrell to continue as moderator.

MR. HARRELL: Okay. We will be taking your comments on Market Area Guidelines at this time. I don?t know, at this time, really the correct procedure, because some of this is informational,

some of it is some staff concepts and others are various memos and correspondence from consultants. As we go through this packet, if you have comments on any of the materials, or comments that don?t address the materials, please come forward and address those.

The first thing, on page 1, is just an outline on concepts, you know, what is needed, what are they used for, what are defined, our statutory requirements requiring that we have and develop these, the requirement for the record layout.

On page 2 there are some staff concepts, purpose and factors to be considered in developing market area. I will read through this because probably some of you have not seen this. Steve, would you like to summarize that?

MR. KELLER: Sure. What we thought might be a good thing to do would be to prepare some issues or concepts and you see these on page 1. If anyone would like to address any of these questions here, we would be interested in hearing your input as to, for example, what would be needed in order to come up with a good Market Area Guideline.

The statutory requirement is set forth here on page 1, as I indicated earlier, it simply

requires that there be a Market Area Code established under Department Guidelines and that that Code be placed on the tax roll. If you look on the bottom of page 1, the field for those codes are contained in field number 20, which is an alpha-numeric field, and then for the neighborhood code it is in field number 53 which is also an alpha-numeric field.

We set forth the complete Statute on page 3 and page 4. The Rule which is 12D-8.013(6a) is set forth on pages 5, 6, and on page 7 you will see the field there for Market Area, number 20, at the top of page 7. Currently it states in there that they are anticipating possibly 10 to 30 Market Areas. If you look on page 9 you will see field number 53 which is the field for the placement of the Neighborhood Code which is also an alpha-numeric field.

So that is where we are with the statutory authority and the placement of the codes on the tax roll.

If you look on page 10 there is an excerpt from a textbook, Mass Appraisal of Real Property. Go to the bottom of page 11 is the excerpt from the book which speaks to the Stratification and Location

Analysis. Essentially, the Market Area definition that is contained in this textbook has to do with wide geographic areas.

MR. HARRELL: I know that there has been quite a bit of discussion about Market Areas and really there is very little written text about it. I know all of us have our own concepts and ideas about it, and we certainly would love to hear your ideas about Market Areas.

MR. TODORA: Good afternoon. I am Jim Todora, the Property Appraiser in Sarasota County. Thank you for the opportunity to express some opinions, and yes, I don?t know quite know the forum you would like to follow. I have some general comments and I have drafted them. Unfortunately, they haven?t been edited, so I will submit them to you in writing before the 19th of January.

To kind of set the stage a little bit though, I wanted to refer back to the Auditor General?s findings and the Action Plan. One of the differences that I found in the materials written about Market Areas versus Real Property Guidelines was in Finding Number 8 which stated that ?the Market Area Guidelines which the Department will be developing follow the steps and time line identified

in this plan are intended, by Statute, to be directory in their application.

However, unlike the Real Property Guidelines which do not have the force or effect of a Rule and may be used by the Property Appraiser as a discretionary tool to establish just value, the Market Area Guidelines are subject to Chapter 120 and are required to be Rules?. So, this has a lot more authority, I take it, than the Real Property Guidelines we were talking about this morning.

It seems that in this Auditor General?s report and the consultant?s report, what I was able to glean from the materials was a concern with having samples being representative. While there was discussion about breaking the tax rolls down by value type, by age and by other things, there may have been a void as far as a geographic stratification was concerned. The impetus behind this was that there was a desire to come up with something that would represent the geographic relationships of a county.

As you said, Mr. Harrell, there hasn?t been a whole lot written on this subject. I started to do some research into this myself and I found very little written. As a matter of fact, in the IAAO,

in their basic textbooks, the Property Assessment Valuation and Property Assessment Administration, the red book, they don?t even mention the words Market Area. They don?t begin to appear until the mass appraisal courses that were developed and made available to students in the mid 1990's, around 1994 or 1993. When they began talking about geographic stratification they talked about what, how location would influence value.

The Appraisal Institute, in it?s textbook that dealt with Dictionary of Real Estate Appraisal, published under the former name of the American Institute of Real Estate Appraisers, published a definition in which it stated that a Market Area was a ?geographic area of political jurisdiction in which alternative similar properties effectively compete with the subject property in the minds of probable potential purchasers and users?. The International Association of Assessing Officers came out with a glossary for property appraisal and assessment and when you look under the term ?Market Area? it refers you to a term called ?Economic Area? in which it says ?a geographic area typically encompassing a group of neighborhoods defined on the basis that the properties within its boundaries are

more or less equally subject to a set of one or more economic forces that largely determine the value of the properties in question?.

Nothing else was really coming out of the IAAO until the Mass Appraisal of Real Property was published in 1996 by the IAAO. This definition, I think, was more on point for what we are here today about. It stated ?a broad geographic area defined for the purposes of market analysis. Typically, one mass appraisal model will be developed for each such area. Market Areas usually consist of several thousand parcels or more and are divided into subareas or neighborhoods?.

That pretty much listed the history of definitions of Market Area and someone, rhetorically I think, said at one of our conferences ?What is a Market Area?? and there seemed to be so many differing opinions, but yet the 67 Property Appraisers in the State were asked to come up with these Market Areas for their respective jurisdictions and they did so by whatever means they had available to them.

In its book, Mass Appraisal of Real Property, the section, and I think it is in your handout, as a matter of fact, that you provided to

us today, lists that particular area and it talks about 3 ways of measuring locational influences; geographic stratification, stratification on physical characteristics and single model with location adjustments. The only one of those three that employs market areas would be the geographic stratification technique. So again it is kind of limiting. But everything that it focuses on is on valuation model building.

There were some key points that came out of those definitions. One is a broad geographic area, another is subdivided into subareas or neighborhoods, another is it contains thousands of properties, another is similar economic influences, used for market analysis of specific type of property, alternative similar properties effectively compete, geographic stratifications and locational analysis. And finally, one valuation model, again for the specific property type, per market area. Nothing in the definitions really talked about sales ratio analysis or equity tests. In that paragraph that is in your handout that comes from the Mass Appraisal of Real Property, the one paragraph in the entire textbook that addresses market areas states as follows: ?Geographic stratification usually

involves two layers. First are Market Areas (also known as economic or model areas). Separate models are developed for these areas, which are also used in sales ration studies and other market analyses. Second are subareas or neighborhoods, which serve as variable in modeling and are also used in land value tables and comparable sales selection.?

So, it sounds like the first step is to do valuation work. The second step would be to deal with sales ratio analysis. I think this paragraph offers significant insight into what we are trying to deal with today. Another, if I can call it a publication, was a memorandum written to you, and I believe it is in your materials that you handed out today, by Mr. Bob Gloudermans and he has his paragraphs numbered. The paragraph numbered 4, I think it may be on page 19 of the handout, is again on point. Here he says:

?Stratification by market area. In both the 210 and limited sample methodologies, strata 1 and 4 will be substratified by market area when the Property Appraiser has developed market areas consistent with Department Guidelines. This will ensure geographic representativeness and increase the reliability of study results.

Further, where usable market areas are not available and in strata other than 1 and 4, the Department will stratify by soft-coded value ranges, as described above for the limited sample methodology. This will increase representativeness relative to current procedures, providing a more cost-effective study and better consistency between the 210 and limited sample studies.?

So again he seems to be focusing on this representativeness, however, in this case, he limits this to residential property only, strata 1 and strata 4, which I think again are key points.

As has already been pointed out, in 1996, or effective in 1996, the Florida legislature enacted a law requiring the Property Appraisers to put these market area codes, but the Guidelines weren?t established so we may have 67 different ways of doing things as we speak today. We aren?t sure.

I would offer up a couple of things for the solution. First of all, I think for us to be successful, and some of my comments may sound like I am negative about market areas, I?m not, I think they can serve a very useful purpose. I think they can be an advantage to the Department, I think they can be an advantage to the Property Appraiser and I

also think they can be an advantage to the taxpayer. But I think first there must be an agreed definition for everyone to follow. Second, there must be an agreed purpose for their use; and third, there must be agreement on proper application.

Taking these definitions that we have had here in these written materials, I would suggest a definition that encompasses key components of all of those aspects. Something like the following: ?A broad geographic area identified for the purposes of studies of real estate economic conditions for a specific type of property and in which alternative similar properties compete. Market areas are anticipated to consist of thousands of properties and shall be divided into subareas. Market areas shall, for the most part, include properties that are similarly affected by evaluational market forces?. I think that captures all of the issues that we were looking for.

The primary purpose for market areas, again focusing on the valuation aspect of the work, would seem to be the primary purpose for developing these. I can provide some written material to support what I am saying, prior to the 19th. A secondary reason for market areas would be for equity studies, sales

ratio studies, local assessment and so forth. I think that the Property Appraiser has to be using market areas for valuation analysis first, otherwise it doesn?t have any meaning. In other words, if the market areas were just arbitrarily developed, reporting back to the Property Appraiser that they are not equitable or that they do not meet the level of assessment, or if they are higher or lower than the county as a whole, serve no purpose to the Property Appraiser, they have no way to go back and make modifications.

I would add one thing, that while the Mass Appraisal of Real Property suggests, and only use this in geographic stratification, I would also suggest that you could use market areas for Property Appraisers that employ the single model with location adjustments. The market area could become one of a series of adjustments for location, along with things like neighborhood, street, subdivision, lot location and so forth.

All properties within market areas do not have to be contiguous. There was nothing in the definitions that said that. The Property Appraiser shall determine the delineated or stratified areas and shall also determine the number of market areas

annually within the county. Market areas shall be based on a geographic and economic premise where the market, in other words, the buyers and sellers, compete for alternative similar properties. I think that was a key point from the Appraisal Institute definition. In other words, if a buyer would consider purchasing a property, would they look in other neighborhoods in that market area before making their final decision, if they were looking in a particular city or a particular part of a county. I think that is an important point that we should incorporate.

I would also suggest that it is anticipated that market areas would typically consist of thousands of properties, and that for most Florida counties, 2 to 10 market areas should satisfy the need. Subareas may be separately delineated by neighborhoods or they may be clustered properties, including clustered subdivisions, that could also help in the process. Subdivisions shall be delineated or stratified on the premise that the properties represent complimentary land uses. That is the distinguishing characteristic, I think, between a market area and a neighborhood, where a neighborhood is a group of complimentary land uses.

I think when market areas are developed to these criterion or whatever developed criterion we come up with, that the sales ratio studies will take on a lot more meaning, that they will be a lot more helpful to all of us.

I thank you very much for allowing me to present these comments.

MR. HARRELL: Thank you.

MR. BECK: Good afternoon, my name is Stan Beck. We are at the very early stages of developing concepts here so I will, or I would like to take the liberty of sharing some random ideas that I have. I am not an appraiser, so therefore I am not inhibited by some of the appraisal theory, and maybe I can share a creative idea.

First I would just like to mention, and I it was stated clearly, that the ratio studies that we have, have very limited value because of the large strata that are involved. The strata that we use are gigantic, involving, sometimes, a hundred thousand properties that have no uniformity within the strata. The other thing that has happened in this State is that as the State ages, we have older neighborhoods and newer neighborhoods and we have

more diverse neighborhoods. So, in terms of creating substrata, which is how I relate to this, rather market area, it is just breaking down each strata so that the ratio study could be more useful, I think that there are a couple of obvious things.

One thing could be having a group of substrata based on size, which is right in all of the records. Small, medium and large properties; and there could be some criteria provided, each strata would have its own concept of small, medium and large. For single family residential, small, medium and large might be one thousand feet, two thousand feet, ten thousand feet. For office buildings or warehouses, small, medium and large could be very different.

The next thing I think we could have substrata based on age. New, very new, old, very old, and that comes right from the records as well. This is something that the computers have the ability to divide up properties into different categories.

But, the hard one is location. When we look at that issue, I think all of us, in our minds eye, start drawing circles around neighborhoods. We start thinking about luxury residential, I don?t

know why, but in my mind, I think about these market areas as luxury residential, and I think about this luxury residential over here and then a mile and a half away is another one, and then another mile and a half is a third one, and all three of them might be similar. But, if you try to do this with a pencil and draw geographic areas, you are going to have hundreds of geographic areas though within them there are going to be comparables and the question is then, how are you going to get rid of the large volume of them. And, how do you create substrata that are big enough to be useful. Because if you have tiny substrata, you didn?t accomplish anything.

Even more interesting that the luxury residential is the market area for the blighted properties. Because, in South Florida, you would want to be very careful about how you draw the line around the blighted properties, not to include the wrong ones and to include...because that is where the biggest problems occur in valuation. Just to share with you one of our blighted areas turned out to be near a new arena and the land is now selling for $100 a foot. So, my thought about that is, that rather than drawing geographic areas, you could

create geographic areas based upon land rates. So that, in these single family strata, if the land rate is between $1 and $5, that?s a strata. It really doesn?t matter where in the County it is. If the land rate is between $50 and $100 a foot, that?s a strata, and it doesn?t matter whether that land rate is on the intracoastal or on a wide bay or on the ocean. Now I realize that someone might say, ?but that?s arbitrary?, and someone might say, ?you are selecting strata based upon a subjective determination of the land rate?. This is all very preliminary but the reality of it is that drawing the line down the street and deciding which neighborhood is going to be in which one is equally arbitrary. So, if you want to have a model that the computer can digest, you could do it with land rates. We could have office buildings with small, medium and large, new, old, very old, within land rates of less than $5 a foot, $5 to $20, over $20, and I think that will address all of the geographic market area issues. The only thing that will be left is that every County will have to make sure that they have a land rate on every parcel, and irregular parcels won?t work. But, that?s something that can be addressed, I believe. Thank you.

MR. HARRELL: Thank you. Any other comments? We are off to a good start. We have had 2 so far that have offered their comments that have been very stimulating. Surely, you all have some thoughts about this. Don?t bite your tongue.

MR. BURRIS: My name is Brent Burris. I am with Polk County. I am the Real Estate Appraisal Manager. I just don?t think we should lose sight of highest and best use as it relates to market areas. We all know highest and best use is physically possible, legally permissible, financially feasible and most profitable. If you are defining a market area, especially in commercial properties, and while The Honorable Mr. Todora dealt with stratum 1 and stratum 4, we are going to get into commercial properties. I think it is very careful that we get back to basics, if you will, and don?t lose sight of highest and best use as we go about defining our market area. My background, in addition to appraisal, is in developing, and I can assure you if you go to the National Council Shopping Centers, ICSC, International Council of Shopping Centers, or whatever, forum where you have multiple commercial uses; the site selectors there, if you go in, the

first thing they are going to ask you is about demographic and geographic parameters. To make a long story short, I would not advocate any kind of rate type of situation by defining rates or age or size as it related to market area for commercial type properties, because you are going to compare cats with dogs. For residential or vacant land, again I think there could be a problem with highest and best use if you go into a rate type program. You know, we have had market areas in Polk County for several years. I guess it was mandated. I have only been in mass appraisal for a little over a year and a half. Essentially, whoever made that decision, I guess it was Mr. Pullman, the Property Appraiser at the time, basically looked at primary, secondary and tertiary markets and it all boiled down to, somewhat, Mr. Todora?s definition, which I thought was a very good definition, and said what do most people do most of the time.

So, I guess I just throw out comments off the top of my head, let?s don?t get overly zealous here as we look at these wide market areas and let?s don?t lose sight of highest and best use as we go about defining market areas.

MR. HARRELL: Thank you.

MS. DuBEAU: I am Pam DuBeau from Pinellas County. For the purpose of going through the process of taking public comment in the future, there is one suggestion I would make to the packet that we have been handed out.

If you look on page 21, the very first sentence on the page, discusses the fact beginning with 2003 the Department will conduct the ratio analysis using stratum 1 and stratum 4. To be honest with you, when I just read that now, you took all the wind out of my sails because what I really came here today to talk about was the fact that I thought the market area by geographic boundaries was going to be very difficult to implement with the commercial strata. So, that issue is solved, but along with that, I would refer you back to the second page where you talk about the staff concepts. In the very last paragraph, this actually looks like a Dr. Woo mathematical cell thing if I?m not mistaken, he talks about how we evaluate sales within cells and they tend to multiply. If you have 4 market areas and you evaluate 7 strata within each market area then you have 28 cells and then the number of age groups, if you have 3, then you multiply by 3. I suggest to you that that makes

this look a little bit inhibiting and more complicated than it is. If you?re only going to test market areas in 2 strata, the math down there will change dramatically if you change that 7 to a 2, and it will not look to the appraisers who are trying to divide their counties into areas, like they need to have a substantial number of sales in each of 336 cells because the numbers are going to get much smaller if you only refer to the 2 strata involved.

I did want to be on record, in case it changes in the future, that we are very pleased to read that you are only looking at this, at least initially, for stratum 1 and stratum 4. We think that is really important.

One comment for Mr. Beck. Some of the things he said, they really work well in a model. For example, he talked about dividing a county up by land rates. We kind of, in our County, combine what he suggested with using a geographic area first for residential property within a residential area that is bounded by geographic lines. One of the factors we feed into the model are the age, the size of the property, the land rates that you suggested, and those all create multipliers and coefficients.

But, if you start with a market area that is based on geography, that does have some locational effect, whether it is the school district served, the schools, the elementary and high schools that serve that geographic area, you can sometimes focus in on more pointed, market related values. So, I really do think that doing a geographic boundary will work well as long as you stick to the two strata that you are looking at now. Thank you.

MR. HARRELL: Thank you.

MR. MOBLEY: Al Mobley, from Hillsborough County. The handout is great, a lot of great stuff in here. I would refer you to page 2 of the Concepts List and Background Material for Market Area Guidelines.

The first two sentences there kind of get me a little bit. I?m quoting here: ?The purpose of use of market areas is mainly to provide a location consideration of the analyzing assessment rolls.?

MR. HARRELL: It should be ?for? instead of ?update?.

MR. MOBLEY: I?m sorry, say again.

MR. HARRELL: It should be ?for? instead of ?update?.

(Unidentified voice): Thank you.

MR. MOBLEY: Continuing: ?It is not primarily developed for the value determination in any appraisal system?. The existing literatures on market areas, and you have a copy of the best on page 12, this is out of Bob Gloudermans? mass appraisal textbook. Those 4 paragraphs, under the heading of Geographic Stratification, is the best discussion by far of any textbook any where on market areas and it is an excellent discussion. He describes specifically that market areas are useful as modeling areas, as appraisal areas, so I don?t, if we as appraisers are trying to get the most accurate and equitable assessment rolls how are we not to rely primarily on market areas for appraisal purposes. I want to make that point. I think those first two sentences are problematic. I would state that the primary use of market areas is for appraisal purposes, for modeling purposes. I know Brevard County, working under the guidance of Mr. Gloudermans has developed a separate multiplication model for each of their 19 residential market areas. Pinellas County, I believe, has the same for each of their 25 residential market areas. Those two counties were doing this, you know, strictly for appraisal purposes. I think we need to focus on

that.

Continuing in that same paragraph, it says ?the definition for the neighborhood or market areas for the purpose of the value determination for each parcel is too restrictive for this purpose. The market area definition for the Department is mainly designed to capture the location factor for the ratio study in attempting to estimate the level of assessment for the county.? Once again, how are we to get accurate and equitable appraisals considering location unless the use of market areas is primary in the appraisal process?

I had pretty much the same comments as Pam did on the last paragraph on that page. Toward the end of the second line in that where it refers to 7 strata, sounds like this is something like a --- --- analysis being done on all 7 strata at once. I think we get back to the problem there of applying the same market areas for all 7 strata, and that is problematic, that is really not defensible. I understand, you know, for analysis purposes, where somebody would want to do that, but for real estate and micro-economic purposes we really can?t defend that.

Next, I am looking on page 12, the

handwritten page 12 of the handout. This is out of Bob Gloudermans 1999 text on Mass Appraisal of Real Property, and it is the state of the art publication on mass appraisal. I will just reference the 4 paragraphs on that page under the heading of Geographic Stratification, it refers to geographic stratification as having two layers. First, there are market areas also known as economic or model areas. Separate models are developed for these areas, which are also used in ratio studies and other market analyses. Second are subareas or neighborhoods, which serve as variables in modeling and are also used in land value tables and comparable sales selection. Then it goes on to the discussions of the benefits and a couple of problems with geographic stratification. I think that is an excellent discussion.

Page 21, Steve, is this also, this is Bob Gloudermans draft Guidelines on Market Areas and Subareas dated May 16, 2000. That first sentence caught my eye as well, which states ?Beginning with 2003 in-depth study, the Department will conduct ratio study analyses for residential (stratum1) and vacant land (stratum 4) properties by market areas. Does that mean that we are not going to apply this

to other strata at this point, or do we know where we are headed on that?

MR. KELLER: Based on where we are right now, we are limiting it only to strata 1 and 4 at this time.

MR. MOBLEY: Okay. That is the recommendation of the Department of Revenue consultant, Bob Gloudermans, at this point in time, from this document.

MR. KELLER: We also agree with the concerns that many of you have with the first one as well.

MR. MOBLEY: Going down on the second paragraph of that page. Fifth line down, the sentence beginning with ?In general?, and I will read the next two sentences which I think are important:

?In general, market areas should include at least several thousand parcels. In larger counties, five to fifteen thousand is ideal.?

Brevard County has nineteen, as I mentioned, Pinellas County has 25. Those models are sort of where we are looking at evolving toward. I think we?ve got about 270 or 280 thousand parcels and stratum 1, if you say ten thousand parcels per market area, you are looking at roughly 27 market

areas on that basis for Hillsborough County. But somewhere in that 20 to 25 range is probably what we are looking at. I believe I heard Dr. Woo make the statement at some point that there should be no more than 6 market areas per county. Does that ring a bell?

MR. HARRELL: That was at that time and those comments have changed.

(Loud laughter)

MR. MOBLEY: Okay. That takes care of that. I think there is some excellent information and that is a key page also.

On page 25 there is a key paragraph at the top of the page, and I will read that for the record:

?The preparation of tax rolls by Property Appraiser using market areas will require extensive and review of appraisal information, and coding of all parcels of the tax rolls by the property appraisers. Based on the resource demands such coding will place on many of the Property Appraisers? offices, it is unlikely counties will begin coding based on the Department?s directive until such time as the rule is in place to identify a defined coding standard. Once analysis and review

begins, it is reasonably foreseeable that it could take a year to accomplish.?

That is one of our concerns and I guess there is a specific process that has to be followed, but it, as quickly as we can get the coding standard, we may actually start proceeding with some of this stuff subject to revising the codes as they become part of the actual Guidelines. But the point I want to make here is the time frame we are dealing with. We need to have all this stuff up and running perfectly by January 1, 2003, and if the Guidelines aren?t going to be finalized until the end of this year, then that is putting us pretty tight, at a year, so as much as you can give us guidance early on this year, that would be helpful.

MR. HARRELL: Can I ask you a question?

MR. MOBLEY: Yes, Sir.

MR. HARRELL: Do you think that a year is reasonable?

MR. MOBLEY: I think it is cutting it tight. I really do because, some things that I will get into in a minute, where some considerations that I think, critical considerations for market area development, to have it done properly, both for evaluation purposes and assessment roll evaluation

purposes will require a significant amount of pilot testing; in other words, we will have to get boundaries delineated and then probably get codes into all those parcels and then run some statistical tests to see if we have enough sales to be reliable for modeling purposes and for your ratio state purposes. So, the answer to your question is no. We?ll do, you know, what we have to do, but frankly, I don?t think that is enough time. We are going to start on the process, hopefully there is going to be enough information that has come out of these workshops for us to kind of see where we are going and hopefully we can start this summer. But then again, if anyone tries to do that, then maybe that is problematic, because if anything changes in the last half of the year, and I think that December 2001 date for the rule to be enacted, that assumes everything sails smoothly this year, right? In case that doesn?t happen, then you know, I guess there is some flexibility as to, you know, when it will be used for evaluation purposes.

By the way, this is out of the Department of Revenue Action Plan on Market Area Guidelines, middle of the page under the heading May 2001 - December 2001. The first bullet point there says

?Begin study to determine the most efficient and practical use of market area information to properly analyze property tax rolls.? My point there is that we have a lot going on, we have got to hurry up and get the Guidelines done so we can get them out so that people can get market areas developed; but we still haven?t really decided how we are going to use market areas in the assessment evaluation process. So, some flexibility will have to, I guess we will have to design the evaluation process around what we have designed as far as market areas.

Page 27, middle of the page under the heading January 2002 - July 2003, second bullet point. It states ?Conduct workshops with the Property Appraisers and their staff to identify the Department?s expectations as related to uniform coding of parcels based on market areas?. I am hoping that will be January 2002, you know, more toward that end than toward the other end.

Just a moment please. I am looking over some notes.

By the way, there is some great information that you have here on market areas and I know The Honorable Jim Todora has participated in, very meaningfully, over the last two or three years in

correspondence in this regard. Everything that we have seen thus far seems to be directed toward the development and use of residential market areas, more specifically for evaluation purposes. Is there any thought or plan to develop a set of Guidelines for commercial market areas that will be different than residential market areas or are we intending, at this point, for market areas to apply to all property types, where are we headed on that?

MR. HARRELL: Go ahead, Steve.

MR. KELLER: That?s a good question. I think that is what you are talking about here on page 2 if you look at the very bottom of that paragraph where we talked about multiplying it by 7; as I understand it currently, if a county reports 2 market areas for example in the county, that is looked at differently by each stratum, from the Department?s perspective, we look at each stratum separately so we would multiply that by 7 and we would say you have 14 market areas for purposes of subclass analysis. So, for each one of your listed market areas that you report to Department of Revenue, we look at 7 times that many. In other words, no parcel in one stratum is even in the same market area as a parcel in another stratum. So,

that is something that is being considered, I think, in this process, and you can correct me if I am wrong here, but I think that, I don?t know if that?s the way the Department is going to continue to look at them, if we find a better way to have them reported, it certainly would appear to be feasible to look at them differently. But, currently that?s the way they?re looked at. So, the answer to your question is yes, they are not in the same market areas. Commercial properties are certainly always in a different market area than a residential property, from the Department?s point of view and I think from many of the Property Appraiser?s points of view, the way they analyze them at the local level; and I think that appears to be the proper way to deal with parcels in different strata.

MR. MOBLEY: Okay. Thank you. Will there be any, as far as, maybe you were just addressing this Steve, from the perspective of the assessment roll evaluation process, will, how differently will commercial properties be looked at or even land, let?s say even land, stratum 5, how will that vary from what we are looking at for 1 and 4. Are we sort of looking county-wide on those or...

MR. KELLER: I don?t think that we are far

enough along to really have any type of opinion on commercial; I mean that is obviously the most difficult for any county regardless of size. The smallest counties will have their unique problems and the biggest counties will have even greater nightmares in trying to define commercial market areas. Because of diversity and lack of homogeneity in the commercial arena, it?s going to be very, or next to impossible unless you have very defined, such as your downtown business districts and things like that, to which there is a great degree of definition and then you would have other problems with your regional shopping areas and things such as that. In trying to carve out or shape a mold to fit everything, I don?t believe that is possible at this point in time. Maybe by the time we get there and for years to come when we all get more sophisticated and educated we might be able to do something like that.

MR. MOBLEY: It?s a tough issue. I have discussed it with several colleagues and all we have decided is that it is a very difficult issue.

MR. KELLER: Yes, it is.

MR. MOBLEY: One alternative might be to look at, in terms of commercial corridors along

major arteries, another would be countywide use code groups, breaking it down smaller that way, or maybe a combination of geographic stratification and breaking strata down into use codes as well. I could see where you might want to have different market areas, say for multi-family, maybe for office and maybe for industrial and, you know, retail, that kind of thing.

I wanted to just throw out a couple of issues for developing single family residential, which is our, mainly our stratum 1 and 4. I think one issue obviously is sample size. We have to have enough sales both for appraisal purposes, both for modeling and for ratio studies. Another issue would be boundary issues. I think we would want to avoid drawing boundaries along areas where we would have similar properties across boundaries from each other. And, of course, the representativeness issue. I think we would want to have the sales within a market area representative physically and locationally of the population of properties within that area. All of these things would take some work to do to sort of refine for each market area, and that?s where it gets to the time issue you were addressing, Mr. Harrell.

Another issue would be considerations for using market areas for evaluation of assessment rolls, for strata 1 and 4 as we talked. On one hand we would want, I think, a market areas to be large enough to have sufficient sales for ration studies and other statistical analysis that you are doing; but on the other hand, we would want them to be as small as possible to minimize the unreliability of the alternate ratio. That?s pretty much the gist of my comments today. Thank you very much for your time and thank you for the great package of material.

MR. HARRELL: Are there other comments? Mr. Beck?

MR.BECK: First of all, I hope everyone hears better than I do, I must be losing my hearing. My first suggestion is, the next time we do this, we ought to turn the podium around so that we talk to people other, and don?t take this as a criticism, believe me. Maybe I am more sensitive than others to make sure that someone is listening to me, it could be ego or some kind of other shortcoming.

MR. HARRELL: Why don?t you just come on around and talk to the..

MR. BECK: Okay, let me just do it this

way. I?m not sure I heard everything. So, with that as a caveat, maybe something was said and explained that I missed. I am a little lost as to why there is so much preoccupation with single family on some markets because we have amendment 10. I am not a Property Appraiser, I don?t work for Property Appraisers, I give them Excedrin headaches. But, the smallest problem in the State of Florida now should be valuing single family because it?s capped and, in every county I have ever seen, when they sell they chase them, or are allowed to chase them because of amendment 10. Okay, I am wrong, whatever. These are just miscellaneous thoughts, I see all the nods, shaking, okay, rejected.

I believe that the origin of this concept in it?s most important aspect relates to the Auditor General?s report, and the Auditor General?s concern about chasing sales and disqualifying sales. Now, if I am right and the Auditor General gets his way, there will be far fewer counties, I know no one here chases sales, there will be far fewer counties that are chasing sales. And, there will be far fewer counties that are disqualifying sales without adequate documentation.

Now if I?m right about that, then the

classic sales ration study with these big strata are going to make it appear as though some of your assessments are incorrect. Some of your levels are wrong. Because some of the counties have come to depend upon chasing and disqualifying improperly have been cheating on the test. So, if you try to do it right, if you really try to comply and stop chasing, what you might find is that your sales ration studies don?t fly anymore. Then you are going to want to have substrata, because what you are going to say is, of course I can?t pass the test because my strata is full of all kinds of different properties. And you are going to be the ones who say I meed 15 strata, I need 20 strata, and it is not going to be 2003, it might be this year.

So, I think there is a totally different context here. I think that the Property Appraiser themselves I want to be able to verify that my assessments are right and I am going to have to have a lot of substrata in order to prove that. I believe that if you look at this exercise in that context it takes a totally different meaning for you and you are going to want to have lots of valid meaningful strata in order to validate assessments which might no longer look like they are valid. And

likewise, it will point out certain segments of the rolls that need more work.

MR. HARRELL: Is there other comment?

MR. RAHAL: Vincent Rahal, St. Lucie County Property Appraiser. First of all, I would like to ask a question. I am looking at a July draft that was, I think, passed out at the St. Pete meeting, that has a definition for market area. Has the Department of Revenue established, or is that a part of what is being the purpose of these meetings, to establish a definition for market areas.

MR. KELLER: The Department has not established a definition and that is the purpose of these meetings. I mean, certainly, there have been efforts in the past to put down on paper what might be a guideline. Those are not, I mean we don?t have a draft in front of us we are discussing at this time, we are still in the process of trying to develop it.

MR. RAHAL: The purpose of the question is, I think you can?t really start to establish Guidelines for developing market areas when you don?t have a definition for it. I think that is maybe a direction you might want to consider taking is in future meetings is establishing what the

actual definition for market area will be. Then, at subsequent meetings to establish Guidelines to then meet that criteria.

I just want to make a couple of short comments. One of the things I just want to make sure is that in reading this definition, just as a start, ?market areas are defined as broad geographic areas comprised of an aggregate of neighborhoods subject to the same economic influences. Utilizing geographic stratification of properties, the boundaries of a market area are generally defined by physical or political boundaries such as city limits, school districts, major streets, highways and rivers; and will typically include various classes of property.? Which I disagree with when they talk about commercial, etc., but I think we are focusing on residential right now so we will stick with that. ?In general rule, market areas will be comprises of between 1,000 to 25,000 parcels.? I don?t think we need to get into Guidelines that deviate from what the definition says. When we talk about, for example, classifying property by land rates between less than $5 and between $5 and, etc. I think that the problem with that is if I have a

land rate of $5 per square foot in an area where the lots are 5,000 square feet, I have a $25,000 assessment, for example. I may have another one that?s at 50,000 square feet at $5 and I have a $250,000 assessment, it?s not necessarily going to be in the same market. So, I think what we are doing in doing this sort of thing is changing the rules in the definition of market area, and I think we meed to make the definition and basically then, as part of the Guidelines, help the Property Appraisers in implementing the means, the way to get to the boundaries. I think the purpose of the Guidelines is to do just that, to come up with the definition and then let?s come up with Guidelines to assist the counties in their means of developing these market areas.

You had a question, I think back to, I thing it was Al, regarding whether this could be implemented by 2003. I guess that timing is important but obviously, you know, one thing that Property Appraiser?s offices has is, it is not like one tax roll ends and you begin on the next one. You?ve always got the combination of overlap. You are finishing up on one tax roll, you are going through trim notices, you are going through Board

hearings, etc., and at the same time trying to begin work on the next roll. So, I think what you also need to do, and I think you might have done this in your procedural request for information is what type of means do the different counties have to put this into effect. Where some counties might be able to get it done by 2003 and other counties might not. If you are in an in-depth going into 2003 you may have even more difficulties trying to prepare for the roll, and I think those things need to be considered. So, I don?t know if you could do a staggered thing depending on if you are in an in-depth or not. So, thank you very much.

MR. HARRELL: Thank you. Okay, anybody else.

If those are all the comments then we will proceed with the drafting process of today?s meeting. We anticipate having another workshop possibly in the early Spring of 2001 and if anyone would like to submit written comments, please keep in mind that they are public record and they are due by the close of business on the 19th of this month. I believe in your packet, but again the address would be to the Department of Revenue, Technical Assistance and Dispute Resolution, Property Tax Unit, P. O. Box

7443, Tallahassee, FL 32314. If you prefer to fax your comments, the numbers are 850-922-9252 or 921-2983. Please address your faxed comments to Sharon Gallops and comments can also be sent by e-mail to David and that address is beggsd@dor.state.fl.us Copies of the comments will be available upon request.

On behalf of the Department I really appreciate your attendance this afternoon and your comments. It has been very valuable. You see that this is some uncharted waters that we all are diving into and the success of this will be determined by the amount of participation that we all have in this process. This has been a real good start and I really appreciate you all being here. For those of you who have made a marathon out of all of this today, I appreciate that as well. It has been quite a long day and it has been very, very productive, far more so than the previous meeting that we had in Tallahassee. This has been one of the better ones and I hope that they improve in size and passion in your comments as well, because there is no right or wrong side of the fence. Everything you say is very valuable and very appreciated. Thank you for coming.

(The meeting was adjourned at 3:00 p.m.)

REPORTERS CERTIFICATE WITH ACKNOWLEDGMENT

STATE OF FLORIDA)
COUNTY OF LAKE)

I, Lauren A. Swanson, Notary Public, State of Florida at Large, certify that I was authorized to and did report the public workshop held on January 4, 2001 at the Orlando Public Library; and that the transcript is a true and complete record of the workshop.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 21 January 2001 at Eustis, Lake County, Florida.

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Lauren A. Swanson, Notary Public